

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF MCI COMMUNICATIONS CORPORATION-)	
BRITISH TELECOMMUNICATIONS PLC EQUITY)	CASE NO.
TRANSACTION AND PETITION FOR DECLARATORY)	93-383
RULING)	

O R D E R

On October 14, 1993, MCI Communications Corporation ("MCI") and its wholly-owned subsidiaries MCI Telecommunications Corporation ("MCI Telecommunications") and SouthernNet, Inc. ("SouthernNet") filed a notice of the equity purchase transaction between MCI and British Telecommunications plc ("BT"). The terms of the equity purchase transaction are memorialized in an Investment Agreement dated August 4, 1993. BT will purchase up to 20 percent of MCI's common stock in exchange for the investment of \$4.3 billion in MCI. MCI and its subsidiaries operating in Kentucky have petitioned the Commission for a declaratory ruling disclaiming jurisdiction over the transactions contained in the Investment Agreement.

MCI, MCI Telecommunications and SouthernNet argue that the transactions are nonjurisdictional for the following reasons. KRS 278.020(4), which requires persons under the jurisdiction of the Commission to receive approval prior to the acquisition or transfer of ownership or control of a utility, is inapplicable according to MCI because MCI Telecommunications and SouthernNet will continue to be owned by MCI. MCI asserts that it is not a utility and is not

subject to the jurisdiction of the Commission. No change in the ownership or control of MCI Telecommunications and SouthernNet will result from the transactions proposed.

KRS 278.020(5), which prohibits any entity from acquiring control of any utility under the jurisdiction of the Commission without prior approval, is also inapplicable according to MCI, MCI Telecommunications and SouthernNet. KRS 278.020(6)(a) provides that subsection (5) will not apply to any acquisition of control for a utility that derives a greater percentage of its gross revenue from business in another jurisdiction than from business in this state if the Commission determines that the other jurisdiction has rules which are being applied that afford protection to ratepayers in this state substantially equal to that afforded such ratepayers by subsection (5).

Finally, MCI and its subsidiaries argue that should the Commission find that it has jurisdiction under subsection (5) of KRS 278.020, then the presumption of control that exists for an entity that directly or indirectly owns 10 percent or more of the voting securities of the utility, is rebutted by terms in the Investment Agreement which specifically do not give BT control of MCI. Under the Agreement, BT cannot acquire more than 20 percent of MCI's common equity. MCI's Board of Directors will be expanded from 12 to 15; however, BT will only be entitled to 3 of the directorships. The Investment Agreement contains other terms which specifically preclude BT from exercising control over MCI.

MCI filed a similar petition for declaratory ruling with the Federal Communications Commission ("FCC") to confirm that BT's investment in MCI is consistent with the Communications Act of 1934, §310(d), and will not result in a transfer of control under the Communications Act. A copy of the FCC petition is filed with the Commission.

Based on information in the notice, the Commission concludes that MCI and its utility subsidiaries have substantially greater interstate revenues than Kentucky intrastate revenues and that the Federal Communications Commission ("FCC") oversight is an adequate substitute for Kentucky Commission oversight. The Commission has reached this conclusion in a previous case by finding that "the FCC proceedings afford protection to Kentucky ratepayers substantially equal to that afforded such ratepayers by KRS 278.020(5)."¹ The Investment Agreement provides as a prerequisite to the acquisition that the FCC must issue written confirmation that BT's purchase of MCI shares does not constitute a change in control.

The acquisition will have no effect on the operations or services provided by MCI. MCI and BT will continue after the transaction to be operated separately. The proposed Investment Agreement will not affect the financial, technical, or managerial abilities of MCI Telecommunications and SouthernNet to provide

¹ Case No. 90-132, Joint Application of MCI Communications Corporation, MCI Financial Management Corporation, MCI Capital, Inc. and Telecom'USA, Inc. for an Order Approving An Agreement And Plan of Merger and to Carry Out Certain Transactions in Connection Therewith, Order dated July 13, 1990.

service in Kentucky. Further, the Investment Agreement will not result in any increase in rates for Kentucky.

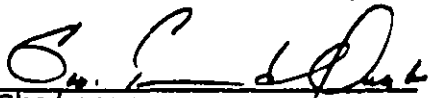
The Commission, having considered the notice of MCI, MCI Telecommunications, SouthernNet, and BT, and having been otherwise sufficiently advised, hereby finds that MCI's operating subsidiaries derive a greater percentage of their gross revenues from provision of interstate services than from Kentucky intrastate services, that KRS 278.020(6)(a) is applicable requiring no approval pursuant to KRS 278.020(5), and that no person under the jurisdiction of the Commission is acquiring or transferring ownership or control of any utility under KRS 278.020(4).

IT IS THEREFORE ORDERED that:

1. The October 14, 1993 notice of MCI-BT equity transaction and petition for declaratory ruling is hereby accepted.
2. Based on the findings herein no Commission approval for the transactions described in the Investment Agreement is required under KRS 278.020.
3. MCI shall file a copy of the FCC's confirmation that this acquisition does not constitute a change in control within 10 days of its issuance, or in the alternative, shall notify the Commission if this acquisition does not occur.

Done at Frankfort, Kentucky, this 13th day of December, 1993.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director